

THE NEW FEDERAL DEFEND TRADE SECRETS ACT OF 2016



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The law governing the misappropriation of trade secrets has traditionally been left to the states. But, that all changed on May 11, 2016, when the President signed the Defend Trade Secrets Act of 2016 (DTSA), a bipartisan bill that almost unanimously passed Congress and created a new federal civil cause of action for misappropriating trade secrets. This new law is expected to usher in a new resurgence in the importance of trade secrets, create a more uniform and national approach to trade secret protection, and open the door to federal courthouses for trade secret owners.

In general, every state recognizes that certain kinds of valuable information (such as formulas, drawings, methods, techniques, and processes) that are not well-known and that a company takes reasonable steps to keep secret can be protected from being taken, disclosed, or used by others who use improper means to learn of the information (such as by theft, bribery, espionage, or inducing others to breach their duty of loyalty or confidentiality).

Forty-seven states and the District of Columbia enacted a version of the Uniform Trade Secret Act (UTSA), which was first published in 1979 and later amended in 1985. The UTSA came out of a desire to create uniformity among the states in light of the recognition of the national and interstate realities of commerce in the United States. These efforts were extremely successful, and only three states to date (Massachusetts, New York and North Carolina) have trade secret misappropriation laws that are not based on the UTSA.

Despite the fact that every state has its own trade secret misappropriation laws and that these laws are mostly based on the UTSA, there still remained a growing need for a national law providing civil protections for trade secrets. There continue to be subtle and sometimes important differences between the states' laws. For instance, there are differences in what information can potentially qualify as a trade secret, what steps are necessary to reasonably protect a trade secret, and the limitations that can be placed

on former employees when they leave a company. Moreover, the case law is not well-developed in many states. Together, these factors created uncertainties and ambiguities for companies that wanted to protect their confidential information that have not been solved by the UTSA. It was in this context that Congress passed the DTSA, primarily as an amendment to the Economic Espionage Act of 1996 (18 U.S.C. § 1830 et al.).

WHAT IS THE SAME BETWEEN THE DTSA AND UTSA?

Congress did not start from whole cloth when drafting the DTSA. Instead, it heavily borrowed from the UTSA and its provisions. As a result, there are far more similarities between the DTSA and UTSA than differences. For example, the definitions of what constitutes misappropriation and what are improper means of obtaining a trade secret are the same. The DTSA and UTSA are also consistent in allowing reverse engineering and independent development as "proper means" of obtaining information

or knowledge that would otherwise be a trade secret.

Both laws also provide for the same general types of remedies for those whose trade secrets have been misappropriated: injunctive relief, compensatory damages, unjust enrichment damages, reasonable royalties, exemplary damages (up to twice the compensatory amounts), and attorney's fees. Finally, both laws provide for a three-year statute of limitations from when a company discovered or should have discovered the misappropriation.

Therefore, much of the DTSA will be familiar to those who have dealt with any of the various UTSA-based state trade secret misappropriation laws, and because the DTSA does not preempt state trade secret laws, the state laws will continue to be meaningful even with the passage of the DTSA.

WHAT IS DIFFERENT BETWEEN THE DTSA AND THE UTSA?

Despite these similarities, there are still some important differences between the DTSA and the UTSA. First, because the DTSA is a federal law, it requires that the trade secret must relate to a product or service used in interstate or foreign commerce. State laws do not have this requirement, and, therefore, potentially can protect a broader range of trade secrets than the DTSA can. For many companies, this interstate commerce requirement will not be a meaningful barrier, but there may be instances where it could be important, such as where the products and services are purely intrastate in nature.

Both the DTSA and UTSA limit what information can qualify for trade secret protection by requiring that the owner take reasonable measures to keep the information secret and that the information be independently valuable to the company because it is not well known. But, what types of information can constitute trade secrets are different (although it will be interesting to see if the differences are meaningful in practice).

The UTSA limits the type of information that can potentially qualify as a trade secret to "information, including a formula, pattern, compilation, program, device, method, technique, or process." The DTSA, on the other hand, defines the types of information that could qualify as a trade secret as being "all forms and types of financial, business, scientific, technical, economic, or engineering information, including patterns, plans, compilations, program devices, formulas, designs, prototypes, methods, techniques, processes, procedures, programs, or codes, whether tangible

or intangible, and whether or how stored, compiled, or memorialized physically, electronically, graphically, photographically, or in writing." The DTSA definition is obviously longer and more detailed than the one found in the UTSA, but, again, it will be interesting to see if these differences are meaningful in practice.

Regardless, the end result for both the DTSA and the UTSA is the same – only certain kinds of information that a company reasonably keeps secret and that are not generally well known can qualify for protection as a trade secret.

Another difference between the DTSA and many states' trade secret laws involves whether a continuing misappropriation constitutes a single act that triggers the start of the statute of limitations period or is a series of separate and distinct acts that resets the limitations period. Both the DTSA and the UTSA explicitly state that continuing misappropriations form a single claim, but not all states adopted that portion of the UTSA, so this difference can be very meaningful in certain situations and can be a potential bar to claims under the DTSA that would otherwise be available under some states' trade secret laws.

NOTABLE PROVISIONS OF THE DTSA

One of the more interesting and talked-about provisions in the DTSA is the availability of an *ex parte* civil seizure order from a court in order to prevent the dissemination or propagation of a misappropriated trade secret. Not unexpectedly, the requirements to get an *ex parte* seizure order are fairly strict. A company must show that it would suffer immediate and irreparable harm if the order is not granted, post a significant bond, identify with particularity what is to be seized, and not publicize the seizure attempt or order, among other things. If the court grants the seizure order, federal law enforcement officers will carry out the seizure without the participation of the applicant and then maintain possession of the seized items in a location that the applicant cannot access. The court must then hold a hearing within seven days of the issuance of the seizure order to determine whether to maintain, modify, or dissolve the order. A cause of action against the applicant exists if the court later determines that the seizure was wrongful or excessive. The inclusion of this seizure provision was fairly controversial, and it will be interesting to see how often companies try to obtain a seizure order and how often (and under what circumstances) courts are willing to grant one.

Another important provision of the DTSA for businesses is that it provides civil

and criminal immunity to whistleblowers who disclose trade secrets in confidence to law enforcement officials in order to report suspected violations of the law. Of particular relevance is the requirement that all agreements and other contracts with employees, independent contractors, and consultants relating to the use of trade secrets or confidential information must provide notice of this whistleblower immunity. A company that fails to provide this notification loses the ability to seek exemplary damages and attorney's fees against employees who did not receive the notice. So, companies should consider modifying their confidentiality and employee agreements to include the required notice provision.

Finally, the protections of the DTSA extend to conduct that occurs outside of the United States if either the offender is a U.S. citizen, permanent resident alien, or company, or if an act in furtherance of the misappropriation occurs within the United States. This potential global reach of the statute will give companies some additional tools to protect their trade secrets from foreign actors.

The DTSA seems poised to usher in a new era of trade secret protection that is more uniform, well-developed, and national in scope. It provides companies with another tool to protect their valuable intellectual property in this global age. For further information, see www.dtsalaw.com.



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